

**CITY OF SUTHERLAND  
INDEPENDENT AUDITORS' REPORT  
PRIMARY GOVERNMENT  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS  
JUNE 30, 2006**

# CITY OF SUTHERLAND

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# CITY OF SUTHERLAND

## CITY OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2006)		
Colleen Johnson	Mayor	December 31, 2006
Carolyn Rohrbaugh	Council Member	December 31, 2006
Ruth Giese	Council Member	December 31, 2006
Dennis Grant	Council Member	December 31, 2007
Dennis Templer	Council Member	December 31, 2007
Robert Draper (resigned 11-7-05)	Council Member	
Bradley Thorn (appointed 12-5-05)	Council Member	December 31, 2007
Betty Hill	City Clerk	July 2006
William Klinker	Attorney	Indefinite
(After January 2006)		
Carolyn Rohrbaugh	Mayor	December 31, 2009
Steve Koch	Council Member	December 31, 2009
Liz Peters	Council Member	December 31, 2009
Dennis Grant	Council Member	December 31, 2007
Dennis Templer	Council Member	December 31, 2007
Bradley Thorn	Council Member	December 31, 2007
Betty Hill	City Clerk	July 2006
William Klinker	Attorney	Indefinite

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Sutherland  
Sutherland, IA 51058

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the primary government of the City of Sutherland, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits, contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

The financial statements referred to above include only the primary government of the City of Sutherland, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, if any, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position - cash basis of the reporting entity of the City of Sutherland as of June 30, 2006, and the changes in its financial position - cash basis for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, and each major fund for the primary government of the City of Sutherland at June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2007 on our consideration of the City of Sutherland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 13 through 15 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Sutherland's basic financial statements for the primary government of the City of Sutherland. Other supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB), Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applies in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Wenther, Steve & Co. LLP*

June 27, 2007

## **BASIC FINANCIAL STATEMENTS**

CITY OF SUTHERLAND  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

		Program Receipts	
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>
FUNCTIONS/PROGRAMS:			
Governmental activities:			
Public safety .....	\$ 84,190	\$ 25,977	\$ 9,020
Public works .....	90,215	43,574	59,194
Culture and recreation .....	31,590		3,319
Community and economic development .....	25,155		5,225
General government .....	79,410		
Debt service .....	<u>48,000</u>		
Total governmental activities	<u>358,560</u>	<u>69,551</u>	<u>76,758</u>
Business-type activities:			
Water .....	54,803	79,898	
Sewer .....	<u>896,563</u>	<u>51,437</u>	
Total business-type activities	<u>951,366</u>	<u>131,335</u>	
TOTAL	<u>\$1,309,926</u>	<u>\$200,886</u>	<u>\$ 76,758</u>

General Receipts:

Property taxes levied for:

General purposes .....	
Tax increment financing collections ....	
Local option sales tax .....	
Intergovernmental .....	
Unrestricted interest on investments .....	
Miscellaneous .....	
Bond proceeds .....	
Transfers .....	
Total general receipts	

Change in cash basis net assets .....

Cash basis net assets - beginning of year ....

Cash basis net assets - end of year

Cash basis net assets

Restricted:

Streets .....	
Urban renewal purpose .....	
Unrestricted .....	

Total cash basis net assets

<u>Capital Grants, Contributions, and Restricted Interest</u>	<u>Net (Disbursement) Receipts and Changes in Cash Basis Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	\$ (49,193)		\$ (49,193)
	12,553		12,553
	(28,271)		(28,271)
	(19,930)		(19,930)
	(79,410)		(79,410)
	(48,000)		(48,000)
	<u>(212,251)</u>		<u>(212,251)</u>
		\$ 25,095	25,095
\$ 299,619		<u>(545,507)</u>	<u>(545,507)</u>
<u>299,619</u>		<u>(520,412)</u>	<u>(520,412)</u>
\$ 299,619	<u>(212,251)</u>	<u>(520,412)</u>	<u>(732,663)</u>
	108,916		108,916
	39,782		39,782
	44,461		44,461
	8,605		8,605
	9,758		9,758
	27,197		27,197
		594,000	594,000
	<u>(9,100)</u>	<u>9,100</u>	
	<u>229,619</u>	<u>603,100</u>	<u>832,719</u>
	17,368	82,688	100,056
	<u>368,993</u>	<u>(34,792)</u>	<u>334,201</u>
	<u>\$ 386,361</u>	<u>\$ 47,896</u>	<u>\$ 434,257</u>
	\$ 14,032		\$ 14,032
	14,303		14,303
	<u>358,026</u>	<u>\$ 47,896</u>	<u>405,922</u>
	<u>\$ 386,361</u>	<u>\$ 47,896</u>	<u>\$ 434,257</u>



CITY OF SUTHERLAND  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Road Use Tax</u>	<u>Urban Renewal Tax Increment</u>	<u>Total</u>
RECEIPTS:				
Property tax .....	\$108,916			\$108,916
Tax increment financing collections .....			\$ 39,782	39,782
Other city tax .....	44,461			44,461
Licenses and permits .....	2,320			2,320
Use of money and property .....	9,758			9,758
Intergovernmental .....	8,605	\$ 59,194		67,799
Charges for service .....	69,551			69,551
Miscellaneous .....	42,441			42,441
TOTAL RECEIPTS	<u>286,052</u>	<u>59,194</u>	<u>39,782</u>	<u>385,028</u>
DISBURSEMENTS:				
Operating:				
Public safety .....	84,190			84,190
Public works .....	40,504	49,711		90,215
Culture and recreation .....	31,590			31,590
Community and economic development ...	25,155			25,155
General government .....	79,410			79,410
Debt service .....		20,000	28,000	48,000
TOTAL DISBURSEMENTS	<u>260,849</u>	<u>69,711</u>	<u>28,000</u>	<u>358,560</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>25,203</u>	<u>(10,517)</u>	<u>11,782</u>	<u>26,468</u>
OTHER FINANCING USES:				
Operating transfers out .....			(9,100)	(9,100)
TOTAL OTHER FINANCING USES			<u>(9,100)</u>	<u>(9,100)</u>
NET CHANGE IN CASH BALANCES	25,203	(10,517)	2,682	17,368
CASH BALANCES - BEGINNING OF YEAR ...	<u>332,823</u>	<u>24,549</u>	<u>11,621</u>	<u>368,993</u>
CASH BALANCES - END OF YEAR	<u>\$358,026</u>	<u>\$ 14,032</u>	<u>\$ 14,303</u>	<u>\$386,361</u>
CASH BASIS FUND BALANCES:				
Unreserved:				
General fund .....	\$358,026			\$358,026
Special revenue funds .....		\$ 14,032	\$ 14,303	28,335
TOTAL CASH BASIS FUND BALANCES	<u>\$358,026</u>	<u>\$ 14,032</u>	<u>\$ 14,303</u>	<u>\$386,361</u>

CITY OF SUTHERLAND  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING RECEIPTS:			
Charges for service .....	\$ 78,248	\$ 48,394	\$126,642
Miscellaneous .....	<u>1,650</u>	<u>3,043</u>	<u>4,693</u>
TOTAL OPERATING RECEIPTS	<u>79,898</u>	<u>51,437</u>	<u>131,335</u>
OPERATING DISBURSEMENTS:			
Business type activities .....	<u>41,222</u>	<u>858,303</u>	<u>899,525</u>
TOTAL OPERATING DISBURSEMENTS	<u>41,222</u>	<u>858,303</u>	<u>899,525</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>38,676</u>	<u>(806,866)</u>	<u>(768,190)</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):			
Intergovernmental .....		299,619	299,619
Bond proceeds .....		594,000	594,000
Debt service .....	<u>(13,581)</u>	<u>(38,260)</u>	<u>(51,841)</u>
NET NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>(13,581)</u>	<u>855,359</u>	<u>841,778</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	25,095	48,493	73,588
Operating transfers in .....	<u>          </u>	<u>9,100</u>	<u>9,100</u>
NET CHANGE IN CASH BALANCES	25,095	57,593	82,688
CASH BALANCES - BEGINNING OF YEAR .....	<u>41,725</u>	<u>(76,517)</u>	<u>(34,792)</u>
CASH BALANCES - END OF YEAR	<u>\$ 66,820</u>	<u>\$ (18,924)</u>	<u>\$ 47,896</u>
CASH BASIS FUND BALANCES:			
Unreserved .....	<u>\$ 66,820</u>	<u>\$ (18,924)</u>	<u>\$ 47,896</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 66,820</u>	<u>\$ (18,924)</u>	<u>\$ 47,896</u>

## **NOTES TO FINANCIAL STATEMENTS**

CITY OF SUTHERLAND  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sutherland is a political subdivision of the State of Iowa located in O'Brien County and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, City of Sutherland has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. These financial statements present the primary government of the City of Sutherland but do not include component units or any other organizations, if any, for which it would be financially accountable.

The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Jointly Governed Organizations

The City also participates in certain jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Northwest Iowa Area Solid Waste Agency.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Activities and Net Assets - Cash Basis reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets - Cash Basis presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets - Cash Basis demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer.

### **C. Measurement Focus and Basis of Accounting**

The City of Sutherland maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

### **D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the general government and debt service functions.

## 2. DEPOSITS AND POOLED INVESTMENTS

The City's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured Iowa depository institutions approved by the City Council; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; and certain registered open-end management investment companies.

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit Risk - The City did not have investments subject to risk categorization at June 30, 2006.

## 3. GENERAL OBLIGATION AND REVENUE NOTES PAYABLE

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 41,264	\$ 6,736	\$ 23,000	\$ 17,297	\$ 64,264	\$ 24,033
2008	43,121	4,879	23,000	16,560	66,121	21,439
2009	45,089	2,911	24,000	15,870	69,089	18,781
2010	27,112	936	25,000	15,150	52,112	16,086
2011			26,000	14,400	26,000	14,400
2012 - 2016			140,000	60,000	140,000	60,000
2017 - 2021			164,000	37,530	164,000	37,530
2022 - 2025			144,000	11,400	144,000	11,400
Total	<u>\$156,586</u>	<u>\$ 15,462</u>	<u>\$569,000</u>	<u>\$188,207</u>	<u>\$725,586</u>	<u>\$203,669</u>

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the funds.
- b. Sufficient balances shall be maintained in a separate sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. User rates shall be established which produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2006, the City failed to comply with certain revenue note provisions.

#### **4. PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$6,886, equal to the required contribution for the year.

#### **5. COMPENSATED ABSENCES**

City employees earn vacation benefits on their employee hire anniversary. Employees are not allowed to carry vacation hours forward to future periods, therefore accumulated vacation benefits are not considered material and are not presented as a part of these financial statements.

As sick leave is not payable upon termination, retirement, or death, the minimum accumulated sick leave is not presented as part of these financial statements.

#### **6. RELATED PARTY TRANSACTIONS**

The City had business transactions between the City and City officials totaling \$3,738 during the year ended June 30, 2006.

## **7. RISK MANAGEMENT**

The City of Sutherland is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **8. LITIGATION**

During 2006, the City was named in two lawsuits. Both cases are filed by citizens of the City seeking damages for personal injuries. Subsequent to year-end, one lawsuit has been dismissed by the Iowa Supreme Court in a favorable ruling to the City. The other lawsuit is in appeal after the initial ruling favored the City. The City's insurer has agreed to defend the cases. While the City believes the remaining claim will be successfully defended, any potential liability is expected to be covered by the insurer.

## **9. DEFICIT FUND BALANCE**

The Enterprise Fund - Sewer Operations had a deficit balance of \$18,924 at June 30, 2006. The deficit was the result of project costs incurred prior to availability of funds. The deficit will be eliminated through charges for sewer services.

## **10. INTERFUND TRANSFER**

The detail of the interfund transfer for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	
Sewer Fund	Urban renewal tax increment	<u>\$ 9,100</u>



## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SUTHERLAND  
BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Net</u>
RECEIPTS:			
Property tax .....	\$108,916		\$ 108,916
Tax increment financing collections .....	30,682		30,682
Other city tax .....	44,461		44,461
Licenses and permits .....	2,320		2,320
Use of money and property .....	9,758		9,758
Intergovernmental .....	67,799		67,799
Charges for service .....	69,551	\$126,642	196,193
Miscellaneous .....	<u>42,441</u>	<u>13,793</u>	<u>56,234</u>
TOTAL RECEIPTS	<u>375,928</u>	<u>140,435</u>	<u>516,363</u>
DISBURSEMENTS:			
Public safety .....	84,190		84,190
Public works .....	90,215		90,215
Culture and recreation .....	31,590		31,590
Community and economic development .....	25,155		25,155
General government .....	79,410		79,410
Debt service .....	48,000		48,000
Capital projects .....			
Business-type activities .....		<u>899,525</u>	<u>899,525</u>
TOTAL DISBURSEMENTS	<u>358,560</u>	<u>899,525</u>	<u>1,258,085</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	17,368	(759,090)	(741,722)
OTHER FINANCING SOURCES (USES) - NET .....		<u>841,778</u>	<u>841,778</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING SOURCES	17,368	82,688	100,056
BALANCES - BEGINNING OF YEAR .....	<u>368,993</u>	<u>(34,792)</u>	<u>334,201</u>
BALANCES - END OF YEAR	<u>\$386,361</u>	<u>\$ 47,896</u>	<u>\$ 434,257</u>

<u>Budgeted Amounts</u>		Budget to Actual
<u>Original</u>	<u>Final</u>	Variance Positive <u>(Negative)</u>
\$ 106,509	\$ 106,509	\$ 2,407
40,000	40,000	(9,318)
35,000	35,000	9,461
1,280	1,280	1,040
22,500	22,500	(12,742)
69,750	69,750	(1,951)
184,000	184,000	12,193
	20,000	36,234
<u>459,039</u>	<u>479,039</u>	<u>37,324</u>
71,750	86,750	2,560
96,000	111,000	20,785
23,750	33,250	1,660
6,000	36,500	11,345
69,800	74,800	(4,610)
		(48,000)
40,000	40,000	40,000
<u>957,100</u>	<u>957,100</u>	<u>57,575</u>
<u>1,264,400</u>	<u>1,339,400</u>	<u>81,315</u>
(805,361)	(860,361)	118,639
<u>850,000</u>	<u>850,000</u>	<u>(8,222)</u>
44,639	(10,361)	110,417
<u>344,054</u>	<u>344,054</u>	<u>(9,853)</u>
<u>\$ 388,693</u>	<u>\$ 333,693</u>	<u>\$100,564</u>

CITY OF SUTHERLAND  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$75,000.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the general government and debt service functions.

## OTHER SUPPLEMENTARY INFORMATION

CITY OF SUTHERLAND  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Capital Notes:			
Street improvement	May 22, 1997	5.75%	\$ 180,000
Urban renewal	April 30, 2003	3.65%	157,564
Total			
Revenue Notes:			
Water	January 24, 2002	4.50%	86,894
Sewer - Series 2005	October 4, 2005	3.00%	600,000*
Total			

\* Final \$6,000 of notes were drawn down after June 30, 2006.

## Schedule 1

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
\$ 84,585		\$ (15,385)	\$ 69,200	\$ 4,615
<u>111,479</u>	<u>          </u>	<u>(24,093)</u>	<u>87,386</u>	<u>3,907</u>
<u>\$196,064</u>	<u>          </u>	<u>\$ (39,478)</u>	<u>\$156,586</u>	<u>\$ 8,522</u>
 \$ 13,336		 \$ (13,336)		 \$ 245
<u>          </u>	<u>\$594,000</u>	<u>(25,000)</u>	<u>\$569,000</u>	<u>5,458</u>
<u>\$ 13,336</u>	<u>\$594,000</u>	<u>\$ (38,336)</u>	<u>\$569,000</u>	<u>\$ 5,703</u>

CITY OF SUTHERLAND  
NOTE MATURITIES  
JUNE 30, 2006

General Obligation Notes						Revenue Notes	
Year	Street Improvement Issued 5-22-1997		Urban Renewal Issued 4-30-2003		Total	Sewer - Series 2005 Issued 10-4-2005	
	Interest Rate	Amount	Interest Rate	Amount		Interest Rate	Amount
<u>June 30,</u>							
2007	5.75%	\$ 16,230	3.65%	\$ 25,034	\$ 41,264	3.00%	\$ 23,000
2008	5.75	17,170	3.65	25,951	43,121	3.00	23,000
2009	5.75	18,178	3.65	26,911	45,089	3.00	24,000
2010	5.75	17,622	3.65	9,490	27,112	3.00	25,000
2011						3.00	26,000
2012						3.00	26,000
2013						3.00	27,000
2014						3.00	28,000
2015						3.00	29,000
2016						3.00	30,000
2017						3.00	31,000
2018						3.00	32,000
2019						3.00	33,000
2020						3.00	33,000
2021						3.00	35,000
2022						3.00	36,000
2023						3.00	37,000
2024						3.00	38,000
2025						3.00	33,000
TOTALS		<u>\$ 69,200</u>		<u>\$ 87,386</u>	<u>\$156,586</u>		<u>\$569,000</u>



CITY OF SUTHERLAND  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2006

Grantor/Program	CFDA Number	Expenditures
Indirect:		
U.S. Environmental Protection Agency:		
Iowa Department of Natural Resources:		
Capitalization Grants for Clean Water		
State Revolving Funds	66.458	\$500,000
U.S. Department of Housing and Urban Development:		
Iowa Department of Economic Development		
Community Development Block Grant	14.228	<u>299,619</u>
Total Indirect		<u>\$799,619</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Sutherland and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

To the Honorable Mayor and  
Members of the City Council  
City of Sutherland  
Sutherland, IA 51058

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the primary government of the City of Sutherland, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 27, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Sutherland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Sutherland's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above, item II-A-06, is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sutherland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sutherland and other parties to whom the City of Sutherland may report including federal awarding agencies and pass-through agencies. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sutherland during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Wintler, Steve & Co LLP". The signature is written in dark ink and is positioned in the lower right area of the page.

June 27, 2007

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and  
Members of the City Council  
City of Sutherland  
Sutherland, IA 51058

**Compliance**

We have audited the compliance of the City of Sutherland, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Sutherland complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we

considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above, item III-A-06, is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sutherland and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Winther, Steve A. ZHP". The signature is written in a cursive, flowing style.

June 27, 2007

CITY OF SUTHERLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2006

**Part I: Summary of the Independent Auditors' Results**

- a. Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f. The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. The major program was CFDA number 66.458 - Capitalization Grants for Clean Water State Revolving Funds.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Sutherland did not qualify as a low-risk auditee.

CITY OF SUTHERLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2006

**Part II: Findings Related to the Financial Statements**

**Instances of Noncompliance:**

No matters were noted

**Reportable Condition:**

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response accepted.

CITY OF SUTHERLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2006

**Part III: Findings and Questioned Costs for Federal Awards**

**Instances of Noncompliance:**

No matters were noted

**Reportable Condition:**

CFDA No. 66.458

III-A-06 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit, and record-keeping for receipts, including those related to federal programs. See item II-A-06.



CITY OF SUTHERLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2006

**Part IV: Other Findings Related to Statutory Reporting**

- IV-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the general government and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- IV-B-06 Questionable Disbursements - We noted no expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-C-06 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or City employees were noted.

- IV-D-06 Business Transactions - Business transactions between the City and City officials or City employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Brad Thorn, City Council Member	Repairs	\$ 98
Dennis Templer, City Council Member	Economic Grant	\$ 1,700
	Repairs	1,940
		<u>\$ 3,640</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with Brad Thorn does not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the fiscal year.

Recommendation - The transactions exceeding \$1,500 may represent a conflict of interest. The City should consult legal counsel to determine the disposition of each of these matters.

Response - The City Attorney will be asked to comment on these transactions.

Conclusion - Response accepted.

CITY OF SUTHERLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2006

**Part IV: Other Findings Related to Statutory Reporting** - Continued

IV-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

IV-F-06 Council Minutes - We noted one transaction we believe should have been approved in the Council minutes but was not. Council minutes do not indicate approval of a \$9,100 transfer from the Urban Renewal Fund to the Sewer Fund for reimbursement of expenses.

Recommendation - The City Council should approve this transfer and approve all future transfers prior to being made.

Response - We will approve this transfer and make sure future transfers are only made after approval by the City Council.

Conclusion - Response accepted.

IV-G-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted, except that the City has not adopted a written investment policy.

Recommendation - We recommend the City adopt a current investment policy.

Response - We will adopt a current investment policy.

Conclusion - Response accepted.

IV-H-06 Revenue Note - The City has not complied with various sewer revenue note resolutions. The City has not established the sewer bond and interest sinking fund required by bond resolutions. In addition, the City has not maintained user rates for the sewer utility at a level sufficient to produce net revenues to the extent required by the respective bond resolutions.

Recommendation - The City should make transfers to the sewer bond and interest sinking funds necessary to bring the balance into compliance with bond resolution requirements. The City should also determine whether existing sewer user rates will be sufficient to produce the required net revenues or whether user rates should be increased.

Response - We will make the necessary transfers to the bond and interest sinking fund to bring it into compliance. We will also examine existing sewer user rates to determine the level required to comply with bond resolution net revenue requirements.

Conclusion - Response accepted.

CITY OF SUTHERLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2006

**Part IV: Other Findings Related to Statutory Reporting** - Continued

- IV-I-06 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amount stated in the resolution was exceeded during the year ended June 30, 2006.

Recommendation - We recommend amounts deposited in financial institutions be regularly reviewed for compliance with the depository resolution.

Response - The maximum deposit amount was temporarily exceeded due to the deposit of loan proceeds. We will regularly review financial institution account balances for compliance with the depository resolution.

Conclusion - Response accepted.

- IV-J-06 Financial Condition - The Sewer fund had a deficit balance at June 30, 2006 of \$18,924.

Recommendation - The City should investigate alternatives to eliminate the deficit in order to return the fund to a sound financial position.

Response - We intend to eliminate the deficit through charges for sewer services.

Conclusion - Response accepted.

- IV-K-06 Payment of General Obligation Notes - The City is disbursing funds directly from the Road Use Fund toward repayment of the street improvement loan without utilizing the Debt Service Fund.

Recommendation - The City should transfer funds to the Debt Service Fund to make the loan repayment.

Response - We will begin transferring to the Debt Service Fund and then make loan repayment disbursements from the Debt Service Fund.

Conclusion - Response accepted.